Department for
Communities and
Local Government

Consultation on the transitional arrangements for the 2017 business rates revaluation

Summary of Responses and Government's Response

November 2016
Department for Communities and Local Government

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Introduction

1. The next business rates revaluation takes effect from 1 April 2017 and will update rateable values to reflect the market as at 1 April 2015. This will ensure business rate bills more closely reflect the property market and that all businesses are getting a fair deal.

2. The revaluation will not raise any more or less tax. In September the Government announced the multiplier would reduce to ensure the revaluation does not raise any more in rates. Using the latest data on the revaluation[1] the government will now reduce the small business non-domestic multiplier for 2017/18 from 48.4p to 46.6p. The national non-domestic multiplier will fall from 49.7p to 47.9p. The multipliers will be confirmed after either the Local Government Finance Report for 2017-18 has been approved by the House of Commons or 1 March 2017, whichever is earlier.

3. The Government is putting in place exceptional measures to help businesses with the revaluation through the transitional relief scheme. We are providing the same transitional relief to small and medium businesses as was provided at the previous revaluation in 2010. No small property will see more than a 5% increase next year before inflation due to the revaluation benefiting 500,000 small businesses.

4. The majority of businesses across the country will be unaffected or better off by the changes, with many looking forward to their bills falling as the system is made fairer across the whole of England. This is on top of measures which mean that from next April, businesses will benefit from the biggest ever cut in business rates in England – worth £6.7 billion over the next 5 years. As a result, 600,000 businesses across the country will pay no business rates at all.

5. For the small minority of businesses who face an increase in the bills, any rise will be capped at 5% in the first year for small properties, with a dedicated system of transitional relief worth £3.6 billion to help business owners adjust to the new bills. In total properties in London will benefit from transitional relief worth over £1bn over the life of the scheme. Over 140,000 properties in London will benefit from transitional relief of which over 100,000 are small properties.

6. The Government are required by law to ensure (as far as is practicable) that the transitional arrangements are self funding. Therefore, the cost of the relief for those ratepayers facing increases must be funded from other ratepayers. On 28 September the Government published a consultation paper on the transitional arrangements. Two options were presented for consultation:

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[1] The draft 2017 rating lists published on 30 September 2017 and RPI inflation for September.

Option 1: Transitional Arrangements 2017 revaluation (before inflation) funded by caps on reductions						
	Property Size	2017/18	2018/19	2019/20	2020/21	2021/22
Upwards Cap	Small	5.0%	7.5%	10.0%	15.0%	15.0%
	Medium	12.5%	17.5%	20.0%	25.0%	25.0%
	Large	33.0%	29.0%	30.0%	27.0%	13.0%
Downwards Cap	Small	20.0%	30.0%	35.0%	55.0%	55.0%
	Medium & Large	4.1%	5.6%	5.9%	5.8%	4.8%
Note: these are year on year caps on increases. For instance, the maximum increase for small properties over 5 years would be 64%. But a small property with an increase of 7% would reach their full bill in year 2. Medium is above £28,000 rateable value in London and £20,000 elsewhere. Large above £100,000.						

Option 2: Transitional Arrangements 2017 revaluation (before inflation) funded by 3 caps on reductions						
	Property Size	2017/18	2018/19	2019/20	2020/21	2021/22
Upwards Cap	Small	5.0%	7.5%	10.0%	15.0%	15.0%
	Medium	12.5%	17.5%	20.0%	25.0%	25.0%
	Large	45.0%	50.0%	50.0%	16.0%	5.0%
Downwards Cap	Small	20.0%	30.0%	35.0%	55.0%	55.0%
	Medium	10.0%	15.0%	20.0%	25.0%	25.0%
	Large	4.1%	4.6%	5.9%	5.8%	4.8%
Note: these are year on year caps on increases. For instance, the maximum increase for small properties over 5 years would be 64%. But a small property with an increase of 7% would reach their full bill in year 2. Medium is above £28,000 rateable value in London and £20,000 elsewhere. Large above £100,000.						

7. The Government stated a preference at consultation for Option 2. Views were invited by 26 October.

Summary of Responses

8. In total 173 responses were received from a range of different groups as shown in the table below:

Respondent Type	**Number of Respondents**	**Proportion of Total**
Sector body	28	16%
Rating agents	13	8%
LA	40	23%
Ratepayer	89	51%
Professional Body	3	2%
Total	**173**	**100%**

Question 1: what are your views on option 1?
Question 2: do you support option 1?

Do you support Option 1?			
Respondent Type	yes	no	no answer
Sector body	7%	82%	11%
Rating agents	15%	69%	15%
LA	3%	93%	5%
Ratepayer	13%	85%	1%
Professional Body	0%	67%	33%
Total	**10%**	**85%**	**5%**

9. Option 1 offered more protection to large ratepayers than option 2 but fewer reductions for medium businesses. It received limited support across all types of respondents. Overall 85% of respondents did not support option 1 and only 10% supported it.

10. The principal reason given for not supporting option 1 (especially amongst ratepayers) was that it did not provide enough help for large businesses facing increases. Almost half of all responses said the cap on increases in option 1 was too high including two thirds of ratepayers. Almost a quarter of respondents rejected option 1 on the grounds that it did not allow medium businesses to see their reductions fast enough.

Question 3: what are your views on option 2?
Question 4: do you support option 2?

11. Option 2 allows medium properties to see their reductions come through faster than option 1 but has a higher cap on increases for large properties.

Do you support Option 2?			
Respondent Type	yes	no	no answer
Sector body	14%	75%	11%
Rating agents	15%	69%	15%
LA	75%	23%	3%
Ratepayer	6%	92%	2%
Professional Body	0%	67%	33%
Total	**24%**	**71%**	**5%**

12. Option 2 was supported by 24% of respondents. A significant proportion of this support came from local government (75% of local government responses supported option 2). 92% of ratepayers did not support option 2.

13. As with option 1, the principal reason given for not supporting option 2 was that it did not provide enough help for large businesses facing increases. This was given as a reason by over half of respondents including three quarters of ratepayers. Almost all of those who supported option 2 did so because it allows medium businesses benefitting from the revaluation to see their gains faster than under option 1.

Other comments

14. Many respondents suggested that we should end the practice of capping reductions in bills at the revaluation and instead fund transitional relief through either a supplement on the multiplier or from general taxation. Some suggested higher or different rateable value thresholds for different locations or sectors and some suggested that transitional relief should be abolished. A few respondents also restated their support for more frequent revaluations as they felt it would reduce the need for transitional relief.

Government's Response

15. Having regard to the responses, the Government continues to believe it is important to provide the greatest support to small and medium businesses seeing increases and to also allow those small and medium businesses seeing reductions to gain quickly from the revaluation.

16. The transitional relief scheme has been developed using detailed and actual data on the 2017 revaluation prepared independently by the Valuation Office Agency and we are required by law to ensure the resulting scheme will be revenue neutral. In order to meet this legal requirement, and to continue to support small and medium businesses, the Government has found it is necessary for the 2017 revaluation to provide less relief for large businesses than in 2010. However, based upon the latest data from the Valuation Office Agency[2], we are able to provide slightly more support than offered at consultation. The Government will introduce the following transitional relief scheme for the 2017 revaluation:

Final: Transitional Arrangements 2017 revaluation (before inflation) funded by 3 caps on reductions						
	Property Size	2017/18	2018/19	2019/20	2020/21	2021/22
Upwards Cap	Small	5.0%	7.5%	10.0%	15.0%	15.0%
	Medium	12.5%	17.5%	20.0%	25.0%	25.0%
	Large	42.0%	32.0%	49.0%	16.0%	6.0%
Downwards Cap	Small	20.0%	30.0%	35.0%	55.0%	55.0%
	Medium	10.0%	15.0%	20.0%	25.0%	25.0%
	Large	4.1%	4.6%	5.9%	5.8%	4.8%
Note: these are year on year caps on increases. For instance, the maximum increase for small properties over 5 years would be 64%. But a small property with an increase of 7% would reach their full bill in year 2. Medium is above £28,000 rateable value in London and £20,000 elsewhere. Large above £100,000.						

17. The Government understands concerns raised by many large ratepayers that the caps on increases in bills under the transitional relief scheme are higher than those adopted for the 2010 transitional relief scheme. However, the type of transitional relief we can provide for the 2017 rating list depends on how individual rate bills are changing at the 2017 revaluation. As such, it is not possible to replicate the 2010 transitional relief scheme for the 2017 rating list and still meet the legal requirement for the scheme to be revenue neutral.

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[2] The data used for the final scheme is from the draft 2017 rating lists published on 30 September 2017.

18. This transitional relief scheme will be worth £3.6 bn over 5 years. For those ratepayers facing increases, London will benefit more than anywhere else in the country from the transitional relief scheme. In total properties in London will benefit from transitional relief worth over £1bn over the life of the scheme. Over 140,000 properties in London will benefit from transitional relief of which over 100,000 are small properties. More details on the final scheme are at Annex A.

Annex A

Transitional Relief Final Scheme

Costs and yields of Transitional Relief by Sector

	£m	2017-18	2018-19	2019-20	2020-21	2021-22	Total
Central	Yield	38	23	10	4	2	78
	Cost	-279	-221	-128	-84	-64	-776
Industry	Yield	277	131	60	32	20	521
	Cost	-142	-82	-47	-24	-14	-309
Office	Yield	264	141	73	40	25	543
	Cost	-183	-72	-31	-12	-5	-303
Other	Yield	449	291	182	120	88	1,131
	Cost	-676	-399	-223	-137	-98	-1,534
Retail	Yield	584	352	184	99	64	1,282
	Cost	-332	-164	-81	-38	-19	-633
Total	Yield	1,612	937	510	295	200	3,555
	Cost	-1,612	-937	-510	-295	-200	-3,555

Costs and yields of Transitional Relief by Region

	£m	2017-18	2018-19	2019-20	2020-21	2021-22	Total
Central	Yield	38	23	10	4	2	78
	Cost	-279	-221	-128	-84	-64	-776
East	Yield	177	98	53	32	23	383
	Cost	-88	-52	-29	-17	-12	-198
East Midlands	Yield	90	49	26	17	13	194
	Cost	-80	-51	-32	-19	-13	-195
London	Yield	210	120	63	33	18	444
	Cost	-590	-271	-128	-66	-40	-1,095
North East	Yield	94	59	35	21	14	223
	Cost	-36	-23	-14	-9	-6	-88
North West	Yield	276	161	88	51	35	611
	Cost	-96	-58	-33	-20	-13	-220
South East	Yield	206	120	66	38	26	456
	Cost	-189	-102	-54	-30	-19	-394
South West	Yield	157	93	52	30	20	353
	Cost	-89	-55	-30	-16	-10	-201
West Midlands	Yield	164	92	47	25	16	344
	Cost	-91	-57	-35	-21	-14	-217
Yorkshire & Humber	Yield	199	122	70	45	32	468
	Cost	-75	-46	-26	-14	-9	-170
Total	Yield	1,612	937	510	295	200	3,555
	Cost	-1,612	-937	-510	-295	-200	-3,555

*Totals may not add up due to rounding